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VOL. CLIII NO. 24 Thursday, February 4, 1988

Today

CONSUMER FINANCIAL SERVICES

Many banks and thrifts this year have been offering CDs that come with a bonus — above-market interest rates. 6

Thomas Chapman abruptly resigned late last month as executive vice president of the First National Bank of Atlanta. 6

While the logic of recruiting package-goods marketers to enliven bank promotional efforts would seem unassailable, consultants say the results have often been disappointing. 7

INSIDE

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Citibank has recruited Paul V. Palmer from Goldman, Sachs & Co. to head its scaled-down mortgage securities department. 5

Dean Witter Financial Services Group, a subsidiary of Sears Roebuck, said its fourth-quarter loss widened to $31.7 million. 14

Federal agencies have scheduled a hearing March 1 to determine how much, if at all, federally insured savings and loans should be allowed to invest in junk bonds. 15

COMMENT

Marketing Management: Banks could learn a few lessons from the revolution at Sears, Roebuck and Co., writes N.W. 'Red' Pope. 4

KEEPING CURRENT

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'We see this consolidation as an acceleration of what is already occurring in the industry. Consolidation clearly works.'

Federal Home Loan Bank Board Chairman M. Danny Wall, announcing details of the Bank Board's 'Southwest plan' to consolidate nearly half of the 281 thrifts currently operating in Texas. [Page 3]

Continental Assets FDIC Plans to Sell

	(millions)
Energy	$846.7
International	340.0
Commercial	322.9
Maritime	208.0
Real Estate	133.0
Personal	19.4
Total	$1,870.0

FDIC to Sell Continental's Leftover Assets

By LISABETH WEINER
Midwest Bureau

CHICAGO — The Federal Deposit Insurance Corp. will sell nearly all of the remaining $1.8 billion in assets it holds from the 1984 bailout of Continental Illinois Corp.

The three-member FDIC board voted Tuesday to separate the loans into six industry segments — energy, commercial, personal, international, maritime, and real estate — and sell each portfolio separately through sealed bids.

But the FDIC said it will accept one bid for all the loans if that offer exceeds the combined bids on the six individual portfolios.

The sale marks a radical departure from the way these troubled loans have been handled in the past. The FDIC asset administration department has been handling bad-loan collections through workouts. Under the bailout plan, $3.5 billion in bad loans was dumped on the regulatory agency.

While the FDIC has conducted bulk sales of loans it has acquired from failed banks, the Continental loans are unique in the size of the individual loans contained in the package and in the size of the proposed asset sale.

FDIC: Page 12 ➤

Appellate Court Casts Doubts On Status of Credit Card Banks

By ANDREA BENNETT
and RICHARD RINGER
Midwest Bureau

CHICAGO — A federal appeals court ruling has raised questions about the legality of special service banks, particularly the credit card banks established in South Dakota and Delaware.

The court decided that a state cannot enact interstate banking legislation that prevents out-of-state institutions from competing fully with banks based in the state.

The ruling last Thursday by the Eight Circuit Court of Appeals in St. Louis could force some states to amend their interstate banking laws to eliminate restrictions.

But the decision conflicts with an earlier ruling by the federal appeals court in Washington, D.C. Banking lawyers are predicting a showdown at the U.S. Supreme Court over the issue.

The St. Louis court overturned the Federal Reserve Board's approval of an application to open a credit card bank in Rapid City, S.D. The application was filed by the $8.4 billion-asset Michigan National Corp., of Farmington Hills, Mich.

The appeals court rejected the Fed's argument that a state has the authority to restrict the banking activities of an out-of-state bank when it allows such a bank to do business within its borders.

Appellate: Page 15 ➤

Marketer Who Came in from the Cold Wants To Heat Up Retailing at Chemical

By MAUREEN NEVIN DUFFY

CONSUMER FINANCIAL SERVICES
AN AMERICAN BANKER WEEKLY FEATURE

Consumers may not know the name Rupert A. Walters, but they are familiar with the icy relief of a Popsicle in mid-July. As president and chief executive of Popsicle Industries Inc., Mr. Walters got a grip on a Fudgesicles and Creamsicles business that was slipping against competition from specialty ice creams.

What should bankers care about Fudgesicles and Creamsicles? Chemical Bank officials thought enough of Mr. Walters' accomplishments to make him senior vice president of marketing and product management, a new post and the highest marketing position in the bank's history.

Hiring Mr. Walters is part of a one-year-old campaign to beef up Chemical's consumer sales force.

The marketing head, who joined the bank in October, reports directly to group executive Edward A. O'Neal Jr. Since the reporting order puts Mr. Walters one person away from the vice chairman, industry insiders consider it an indication of Chemical's determination to excel in retail marketing.

It also is a sign that the bank plans to be among the first out of the gate marketing mutual funds, insurance, and other products when the deregulation flag finally goes up.

As one Chemical insider put it, "They figured it was easier to teach a consumer marketer the banking business than vice versa."

Many financial institutions are struggling over whether to hire people with financial backgrounds and teach them

Marketing: Page 7 ➤

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Regulator Blasts Continental Aid To First Options

By ROBERT M. GARSSON
Washington Bureau

WASHINGTON — Continental Illinois National Bank and Trust Company of Chicago officers clashed with their primary regulator Wednesday over the legality of a loan the bank made to an options clearing unit in the wake of the stock market crash.

Emory W. Rushton, deputy comptroller of the currency, told a House Energy and Commerce subcommittee that the bank had been warned by one of the agency's field examiners that it could not advance more than 15% of its capital to First Options of Chicago Inc. without collateral. An additional 10% of the bank's capital could have been extended with collateral.

Continental chairman Thomas C. Theobald said the wording of the bank's agreement on its lending limits with the clearing facility was ambiguous. "Continental Bank's total investment in, and loans to, First Options" could not exceed "in the aggregate an amount equal to the bank's legal lending limit at the time of the investment or loan of any funds," he said, quoting from the conditions established by the agency when it approved the First Options acquisition.

Since bank loans are limited to 15% of capital with no collateral and an additional 10% on a secured basis, "the statute to which the Comptroller's approval refers provides for an aggregate lending limit of 25% of Continental's capital and surplus," he said. "The approval is silent as to any allocation between secured and unsecured advances."

Holding Company's Role

On the same evening that Continental made the loan, Mr. Rushton said, the bank's lawyers contacted him and said the holding company, which was not bound by the Comptroller's conditions, would assume the loan.

The Energy and Commerce Committee has jurisdiction over the securities industry, and Wednesday's hearing made it apparent that the First Options episode will weigh heavily in the minds of committee members as they consider whether the Glass-Steagall Act should be repealed.

In particular, committee Chairman John D. Dingell, D-Mich, long-regarded as a staunch opponent of bank securities powers, argued at length that the incident raises serious questions about the ability of legislators and regulators to create adequate "firewalls" between banks and securities affiliates.

"Maybe it [the Comptroller's condition] was wrong, but it was a rule and rules should be honored," he said.

The system, he said, may be able to tolerate one bank violating rules. "But could we have tolerated it in the Depression, if 7,500 banks were" violating rules, he asked.

Mr. Dingell, the House's most powerful committee chairman, said the episode demonstrates the truth of former

Continental Fights: Page 15 ▶

American Banker Job Bank

To assist our readers during this period of consolidation in the banking industry, the *American Banker* is providing free advertising space for those seeking jobs. For information on the "Job Bank," contact Sheila Driscoll at 1-800-221-1910 or in New York at (212) 943-5716.

Dutch Bank Wins Big in Debt Market

NMB Sold Mexican Paper Short, Then Bought It Back Low

By JAMES R. KRAUS and JED HOROWITZ

NEW YORK — A low-profile Dutch bank has been cashing in on the secondary market for Mexican loans by selling that paper short and then repurchasing it at lower prices, according to traders in the secondary loan market and at the bank.

Foreign-debt traders asserted that the $40 billion-asset NMB Bank of Amsterdam has been one of the few major buyers of Mexican debt during the past two to three weeks. NMB, they speculated, had earlier sold short a lot of Mexican paper in order to drive down the price, then locked in a profit by buying it back at the lower value.

Average secondary market prices for Mexican debt fell to a trading range of 47 cents to 49 cents on the dollar this week from 50 cents to 52 cents in the first week of January.

Peter R. Geraghty, vice president in charge of the bank's New York asset-trading operation, however, said that the bank began selling Mexican debt short last month after it concluded, for several reasons, that prices would fall.

Mr. Geraghty cited the suspension of Mexico's debt-for equity program last fall, a rising interest among many banks in selling off their Mexican paper, and uncertainty about the value of Mexican debt in light of the upcoming bond-for-debt swap that Mexico has proposed. Mexico is scheduled on Feb. 19 to auction off up to $10 billion of new bonds to creditors that tender at the highest discount.

Mr. Geraghty declined to specify the amount of loans traded by NMB or the profits that were realized. He also declined to comment on speculation by secondary market traders that NMB was the buyer of NCNB Corp.'s entire $105 million portfolio of Mexican loans in late January. The Charlotte, N.C.-based bank said it sold the debt to one buyer, but did not name the purchaser.

In a similar move, First Union Corp., NCNB's chief rival, last week also said it sold its entire $58.5 million Third World debt portfolio consisting of Mexican and Venezuelan loans. A bank official said "several investors" bought the loans, but would not comment on NMB's role. The two North Carolina banks said they sold the debt for an average of 50 cents on the dollar.

According to G.J. Tammes, vice chairman of NMB, the bank has been active in renting or buying Third World debt from U.S. regional banks to trade for its own account. Mr. Tammes said that the bank began expanding its purchases of debt from U.S. regional banks after European banks became less interested in selling off their paper.

"If you want to be a player in this market, you have to do it for your own account. You have to take in inventory," said Mr. Tammes.

Mr. Geraghty said he expected prices for Third World debt to remain within a narrow range for the next few months. The executive predicted that another major decline in Mexican loan prices would be unlikely because banks — which have been adding provisions to their loan-loss reserves — will be unwilling to cut into their equity by selling Third World debt.

Mr. Tammes said that transactions have until now been spurred mainly by debt conversion programs but that they will increasingly be prompted by developing nations buying back their debt under schemes similar to the bond-for-debt swap scheme developed by Morgan Guaranty Trust Co. of New York for Mexico. He also said he expected the International Monetary Fund and the World Bank to assist in facilitating the repurchase of debt by some countries.

His own bank, he said, has been linking a significant portion of its debt trading to corporate finance business in South America.

NMB — Holland's third largest commercial bank — is the only European commercial bank playing an important role in Third World asset trading and debt conversion, according to Mr. Tammes. He estimated that the bank accounted for $3 billion to $3.5 billion of $15 billion worth of debt traded last year. He cited Standard Chartered PLC as the next-biggest European player in this market, with around $760 million worth of trades through the first 10 months of last year.

The executive also predicted that loan sale volume will rise to $25 billion in 1988 as the number of "repurchase gimmicks," or "unofficial repurchase programs," used by the Philippines, Chile, Brazil, Argentina, and Mexico increases.

Mr. Tammes reported that of the $3.5 billion of Third World debt traded by NMB last year, around $1 billion worth was acquired by banks or corporations in Chile, Mexico, or Brazil. Between $1 billion and $2 billion of Brazilian debt acquired last year was purchased by multinational corporations and converted into local currency to build equity or was being used for other purposes. As much as $500 million worth of such transactions have been carried out during the last three months, he said.

A sizable part of the debt purchases are being done with flight capital held in accounts outside the debtor country, said the executive. He estimated that there is a demand for a further $2 billion worth of debt-for-equity conversions in Brazil. ■

Dutch Auction Fails for Arkansas Thrift's Preferred

By LINDA ELLIS

NEW YORK — For the first time, there has been a failed dutch auction in the preferred stock of a financing subsidiary of a thrift, an issue that has the highest possible credit ratings.

The 7.408% ceiling was not high enough to attract investors to the $75 million First Arkansas Funding Corp., a financing subsidiary of the insolvent First Federal Savings of Arkansas, Little Rock. Those who already owned the instruments were unable to sell.

Last August, an auction of the preferred stock of MCorp., Dallas, a commercial bank, failed twice. However, that preferred stock was backed by the parent's credit rating, which had fallen well below investment grade. In the case of First Arkansas, the financing subsidiary has a credit rating separate from the parent and the assets in the subsidiary are collateralized at 150%. The subsidiary carries an Aaa from Moody's Investors Service and AAA from Standard & Poor's Corp.

The underwriter is Prudential-Bache Securities Inc. According to a Prudential-Bache official, the investment bank is working with the issuer on options and strategy.

Auction-rate preferred issues are repriced every seven weeks using a blind auction device in which investors bid for the interest rate they want the shares to pay for the next seven weeks. A ceiling rate, or the maximum interest rate, is pegged for the First Arkansas issue, at 110%.

"It is unfortunate, but not really a surprise," said R. Edward Chambliss, a managing director of Salomon Brothers Inc. "The parent company has obviously had its problems. This is not a failure of the auction structure, not a failure of the subsidiary, and not a failure of asset quality or dividend [potential]. Most thrift issuers would not consider a dividend rate at 110% of commercial paper to be an economical execution and would find an incomplete auction a strong incentive to call the issue." ■

Applications for Forbearance

District	Applications	Approved	Denied	Withdrawn	Pending
Central	12	10	0	2	0
Midwest	28	15	6	6	1
Northeast	0				0
Southeast	2		1		1
Southwest	92	32	14	9	37
West	13	7	3	2	1
Total	**147**	**64**	**24**	**19**	**40**

Source: Office of the Comptroller of the Currency, Dec. 31, 1987 figures

Requests for Capital Leniency Double

Washington Bureau

WASHINGTON — The number of federally chartered banks seeking regulatory leniency on capital requirements rose to 147 last year, more than double the 65 requests in 1986, the Office of the Comptroller of the Currency reported.

Of the 147 applications, the Comptroller's office approved 64 and denied 24. Nineteen were withdrawn, and 40 requests are still pending.

Federal forbearance programs were expanded last July beyond energy and farm banks to all banks with capital-to-asset ratios below the prescribed minimum of 6%.

However, banks in regions that rely heavily on energy and agriculture filed 82% of the applications. More than 62% of the requests came from national banks in the Southwest, while the Midwest accounted for another 20% of the applications.

Admission to forbearance programs formerly required banks to retain at least a 4% capital ratio to avoid being shut down. Last summer's relaxation abolished any capital minimum.

MARKETING MANAGEMENT

Banks Can Learn from Sears' Revolution

By N.W. 'RED' POPE

FOR A NUMBER OF YEARS, I have advanced a theory that banks should change their focus and operating methods if they really want to make it in the New World — the changing financial environment.

For lack of a better way of putting it, I have suggested the changes must come not from an evolutionary process, but from something of a revolutionary one. Certainly, I do not mean there should be some mutinous outbreak within the ranks or a violent takeover of some sort from outside.

What I mean, and what I believe, is that the time to turn banks around is here. Achieving that will necessitate actions many may perceive as revolutionary in nature.

I was heartened, therefore, to read a recent Associated Press story out of Chicago that dealt with Donald R. Katz's book, "The Big Store: Inside the Crisis and Revolution at Sears."

Mr. Katz reports that one Sears executive, during the troubled company restructuring in 1978, said: "Saving Sears is like turning the Queen Mary in the Chicago River." A formidable task indeed.

Edward R. Telling took over that year as chairman of Sears, Roebuck and Co. He faced declining profits, falling stock prices, and new, aggressive competition from discount chains. Mr. Katz states that a 50-year tradition of decentralization was threatening the nation's largest retailer from within.

As I read this fascinating review, I began to think of the increasing competition banks face, the falling stock prices, declining earnings. And, yes, the many traditions around which so many banks function — or languish as the case may be — including the centralization-versus-decentralization issue.

Pope Says:

It is no wonder Edward Telling stated a few years ago that Sears had traditionally been where America shops. Tomorrow, it will be where America banks.

According to Mr. Katz's 590-page account, Mr. Telling had to do nothing short of fomenting revolution. And he had to gather revolutionaries around him to do it.

Those revolutionaries, Mr. Katz said, "included the most gifted, opinionated, aggressive, driven, unusual, mysterious, and, in a few cases, plainly the craziest inhabitants of the corporate society."

Sears was described as a "sleepy, bucolic American company," in spite of its size and history. It was obvious to Mr. Katz that Mr. Telling's unique approach to changing the culture at Sears was the only way the giant retailer could be awakened and moved.

Mr. Telling's management style and philosophy worked, despite upheavals in the ranks. His reign ended in financial triumph one year ago, when he retired.

I love that story, perhaps because it reinforces my belief that many bankers will not be willing to come to grips with the changes that must be made until a revolution takes place. And few bankers view revolutionary actions as acceptable alternatives to methodical, historical, evolutionary moves.

Missing Only One Element

The easy part is that most banks already have everything it takes to change, except for that revolutionary attitude, the dynamic force that creates change. I suggest that most banks already have the capacity, the systems, the franchises, and the people to bring about revolution. What they need is a new focus, a new direction, a new commitment to take extraordinary actions to achieve extraordinary results.

Marketing people in banks, along with advertising managers and public relations directors, have been viewed as mavericks. Radicals. Unusual personalities. Opinionated and aggressive. Crazy.

Some would say they were revolutionaries of a sort, challenging tradition, questioning direction, making waves. Not content with the status quo in a time and place of change. Maybe somewhat like the people with whom Mr. Telling surrounded himself to bring about a new dimension for Sears.

The giant retailer had specialized in home and garden equipment, less-than-Brooks Brothers clothing, hardware, paint, and appliances. Who would have thought that Sears, in a revolutionary move, would start adding things like real estate, insurance, and securities to its line? And Cheryl Tiegs, Arnold Palmer, and Johnny Carson labels?

As we have all heard over and over for a few years, at Sears you can now get your houses where you get your blouses, your stocks where you get your socks, and — because of a hook-up with H&R Block — your taxes done where you buy your axes. It is no wonder Mr. Telling stated a few years ago that Sears had traditionally been where America shops. Tomorrow, it will be where America banks.

Because he and his revolutionary associates began to view the future without myopic blinders, without fear of upsetting traditionalists or disturbing those who clung to yesterday's ways, without assuming everyone on board today was the right person to do the job for tomorrow.

Mr. Telling realized, as a handful of today's current crop of banker "crazies" have come to understand, that urvival and success demand the unusual, the more risk-related, the fresh and exciting, the mind-stretching, the foresight, and, yes, the human resources that have the guts and the gall to go for it.

Part of Success Story

Those helping Mr. Telling carry out his dramatic schemes appeared to be driven by the need for corporate success, not simply by personal glory. True, managers like the sweet smell of success as well as the next person. But to some, including the maverick marketers, the real need is to be a part of producing success.

I have known hundreds of bank marketers. Those who are truly professional, who are dependable and innovative, seem to be totally unselfish, driven by an intense craving for corporate victory and not personal fame.

Many are ego-driven, yes — but most are loyal, committed, concerned, and eager for the bank to succeed, first and foremost. They know that if the bank wins, they win.

It is not turf protection for reasons involving internal politics that drives most marketers. It is the incredibly simple hope of becoming a winner.

At no time in half a century or more has the banking industry faced so much adversity, so many challenges, so much competition, and so many threats to its survival. These are not usual times.

We are no longer in a basic business. We are not likely to be able to wait it out until the "good old days" return. People and ideas that guided banks through the past may be hard pressed to assure their futures.

No one is more of an optimist in this business than I am. But I try to be a realist as well. And I believe the time is right for dramatic, new beginnings for those banks that want to make the moves that make a difference.

Mr. Telling was a revolutionist, widely criticized by his peers, the press, and the shareholders until the wheel of success began to turn in his favor. Then he was praised.

John Reed heard that negative hue and cry as he turned Citibank toward a consumer emphasis. Joe Pinola has heard it as he directs First Interstate to national franchising, truly a revolutionary move.

Ed Crutchfield at First Union in North Carolina heard it as he changed

Marketing: Page 5 ➡

Mr. Pope is senior vice president-marketing at the Valley National Bank of Arizona, Phoenix.

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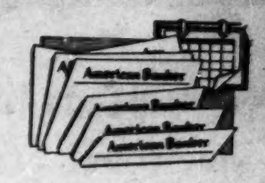
What made news in the *American Banker* this week...



40 Years Ago

• Gen. Robert E. Wood, chairman of Sears, Roebuck and Co., Chicago, and director of the First National Bank of Chicago, told a banking conference a cut in taxes and a reduction in the $11 billion defense budget — a record for any nation in time of peace — was not possible because of the threat from Russia.

20 Years Ago

• The House approved a tough "truth-in-lending" bill that required lenders to disclose to customers the annual rate of interest on revolving credit accounts.

• The trust division of the American Bankers Association said it would form a special committee to deal with the adverse publicity that resulted from a congressional probe of bank trust departments. Rep. Wright Patman, chairman of the House Banking Committee, charged that banks had conflicts of interest in their trust department activities.

10 Years Ago

• Federal Reserve Board Chairman Arthur F. Burns said he was prepared to recommend that Congress phase in NOW accounts for the financial industry on a nationwide basis, and that he wanted to couple the change with a proposal for interest on reserves left with Fed banks.

• In a sharp attack on the Securities Industry Association, Citibank chairman Walter W. Wriston said the Glass-Steagall Act was designed to protect bank depositors and to stimulate business, not to protect the securities industry from outside competition. Mr. Wriston defended bank activity in financial advisory services, including arranging private placements for clients, underwriting government revenue bonds, and stock brokerage.

5 Years Ago

• The Federal Savings and Loan Insurance Corp. was expected to be $898 million in the black in 1983, according to President Reagan's budget. It projected that difference between income and expenses to drop to $716 million in 1984.

• The Reagan administration announced plans to restrict the guaranteed student loan program by subjecting applicants to a "need analysis" to insure that the federal interest subsidies under the program "do not go to those who do not need them." The program at that time applied a needs test only to applications from students with family incomes of more than $30,000.

• Continental Illinois National Bank and Trust Company of Chicago said it would reduce its work force by 800 jobs in an effort to control noninterest expenses. The cutback, which represented about 6% of Continental's 13,000 employees, was to come through attrition and turnover.

1 Year Ago

• Antonio Gebauer, a former top officer at Morgan Guaranty Trust Co. who pleaded guilty to fraud, was sentenced to three and a half years in prison. Mr. Gebauer, who was in charge of the bank's Latin American operations, admitted defrauding Morgan of about $4.3 million by making unauthorized withdrawals of the accounts of wealthy Brazilian customers.

• The troubled BankAmerica Corp. said it had agreed to sell its discount brokerage subsidiary, Charles Schwab & Co., back to an investor group led by Charles Schwab, the firm's founder.

• Executives from three big New York banking firms appeared before the Federal Reserve Board to press their case for new securities underwriting powers. Representatives from Bankers Trust Corp., Citicorp, and J.P. Morgan & Co. said the Fed's stringent limit on how much commercial paper Bankers Trust could sell was too strict. The banks wanted the Fed to permit them to underwrite commercial paper, mortgage-backed securities, municipal revenue bonds, and consumer receivables through affiliates that also underwrite U.S. government securities.

— Domenica Trevor